

## **OPINION OF THE EUROPEAN MONETARY INSTITUTE**

on a consultation from the Council of the European Union under Article 109f (6) of the Treaty establishing the European Community (the "Treaty") and Article 5.3 of the Statute of the EMI;

on a Commission proposal for a European Parliament and Council Directive to amend Council Directive 89/647/EEC on a solvency ratio for credit institutions (the "SRD").

### **CON/96/07**

1. The present consultation was initiated by means of a letter sent on behalf of the Secretary General of the Council of the European Union, addressed to the President of the EMI and received on 15th July 1996, and relates to the proposal for a directive, prepared by the Commission (reference COM (95) 709 final) and communicated to the Council of the European Union by means of a letter dated 28th February 1996.

References in this opinion to the text of the proposal refer to document reference COM (95) 709 final.

2. The EMI notes that the purposes of the proposal are twofold. First, to allow competent authorities to treat mortgage backed securities in the same way as loans secured by mortgage against residential property from the point of view of risk weighting for capital adequacy purposes (amendment to Article 6, paragraph 1 (c), item 1 of the SRD). Second, to permit competent authorities to risk weight certain commercial mortgage loans at 50% rather than 100% for the period until 1st January 2001 (previously competent authorities were required to risk weight such loans at 100%, apart from the competent authorities of Denmark, Germany, Greece and Austria which had been permitted, until 1st January 1996, to apply a risk weighting of 50% to loans secured against commercial property situated in one of those countries - Article 11 (4) of the SRD). The EMI also notes that there is no compulsion placed on Member States to adopt either of the amendments represented by the proposal.
3. The EMI considers that it is competent to give an opinion in relation to the proposal. Article 109f (6) of the Treaty and Article 5.3 of the EMI Statute provide for consultation of the EMI by the Council on any proposed Community act within the field of competence of the EMI. The present proposal relates to the field of competence of the EMI: it concerns the supervision of credit institutions, being an area which falls within the competence of a number of national

central banks, and it will have a potential impact upon the stability of financial institutions and financial markets (Article 4.1, fourth indent of the EMI Statute).

4. The EMI notes the two proposed amendments referred to in paragraph 2 above and the fact that they will each have the effect of reducing the minimum requirements for the maintenance of capital against certain assets, compared with the SRD as presently in effect. The EMI also notes that the Commission considers that the amended capital requirements represented by these proposals will reflect the real risk represented by the assets involved and has therefore presented the proposal to the EU Council. The EMI wishes to inform the Council that a number of national central banks consider that the proposed capital requirements for commercial mortgage loans insufficiently reflect the underlying risks and maintain that further work is needed to assess the risks involved with such assets. Other national central banks concur with the Commission view, holding that the proposed rule on capital requirements for commercial property mortgage loans well reflects the lower risk of such operations, keeping in mind the strict assessment criteria for determining relevant values and the 60% loan to value ratio, and point out the transitory and optional nature of this provision.
5. The EMI agrees that this opinion may be made public by the consulting authority.

24th September 1996